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Release 2010/03/05 :
CIA-RDP85T00875R00170002

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CIA/OER/IM 71-235

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**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

*Algeria's Search for Foreign Capital
and the Outlook for Repayment*

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ER IM 71-235
December 1971

Copy No. 69

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
December 1971

INTELLIGENCE MEMORANDUM

ALGERIA'S SEARCH FOR FOREIGN CAPITAL AND THE OUTLOOK FOR REPAYMENT

Introduction

1. Algeria is seeking extensive external financing to support ambitious, capital-intensive development plans during 1970-73 and succeeding years. Several large foreign credits already have been obtained, and others are being sought from Western Europe, Japan, and -- for the first time -- the US Export-Import (EXIM) Bank. Heavy foreign borrowing is expected to continue throughout the 1970s. As a result, Algeria's foreign debt is likely to increase dramatically. This memorandum examines the role that foreign capital is to play in Algerian development efforts and assesses the country's ability to meet mounting debt service payments.

Discussion

Algeria's Development Plan and Foreign Financing Expectations

2. Although numbered among the more radical Arab nations, Algeria has subordinated its international policy to economic development under the leadership of Premier Boumediene and has adopted economic advancement as a primary goal. To this end, Algeria is cultivating US and West European economic ties. Contracts and agreements are being honored and foreign debts paid, albeit with some bureaucratic delay. Trade with the United States and West European countries other than France is increasing. Although some foreign firms have been nationalized, particularly in the petroleum industry, Algeria has made satisfactory compensation

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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arrangements in most cases and has expressed a willingness to pay in those as yet unresolved.

3. In 1970, Algeria embarked upon its present plan for greatly enlarging its industrial sector by 1980. In an effort to boost annual economic growth rates from a 6% average during 1967-69 to 9% for 1970-73, Algeria plans to invest more than 30% of gross domestic product (GDP), compared with 25% during 1967-69. Nearly half of the \$5.3 billion of planned investment during 1970-73 is earmarked for industry, and part of the remainder is to be spent on supporting infrastructure, such as ports and roads. Much of the planned industrial investment is designed to make better use of the country's huge petroleum reserves (natural gas and crude oil). Construction already has begun on three large petrochemical complexes that will produce plastics, fertilizers, and liquefied natural gas for export. Subsequent development plans are expected to be very much like the 1970-73 plan in their emphasis on industrial investment, although they could not realistically call for indefinite continuation of a 9% annual growth rate.

4. Because it produces little capital equipment itself, Algeria is expected to allocate roughly half of total planned investment expenditures for capital goods imports. Algeria's already large petroleum receipts are expected to increase substantially; however, they will fall far short of covering the probable value of imports through 1980. The government consequently has been seeking development financing, mainly from countries that would supply the needed investment goods. France, West Germany, Italy, the United Kingdom, Japan, and the United States are expected to be the major creditors. West European and Japanese credits already have been obtained to finance various components of the three petrochemical complexes as well as gas and oil pipelines.

Prospective US Role

5. The United States is a likely source for sizable loans to the Algerians. These credits, to be provided by US firms either directly or with EXIM Bank guarantees, could reach as much as \$1 billion in the next several years. Although the EXIM Bank thus far has authorized only a few small loans, it has made more than a dozen preliminary commitments totaling about \$400 million and has received applications for an additional \$500 million. Algeria seeks US credits for the large Arzew liquefied natural gas (LNG) plant and several smaller projects. The Arzew LNG plant hinges on Federal Power Commission approval of US imports of liquefied natural gas under 25-year contract between El Paso Natural Gas Company and the Algerian state petroleum company, SONATRACH. In the meantime, the EXIM Bank has made a preliminary commitment of \$285 million for this project and is considering an additional \$50 million request.

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Algeria's Ability to Service the Debt

6. The extensive foreign borrowing that Algeria is likely to undertake will cause debt repayment obligations to grow rapidly. Total debt outstanding is expected to increase about three-fold during 1970-80 -- to about \$2.4 billion -- and credit terms probably will be such as to cause debt service payments (amortization and interest) to rise at a still faster pace. Although Algeria will receive some long-term credits at concessionary rates from Communist countries and other Arab nations, most loans by Western countries will be on commercial terms, making debt servicing requirements relatively heavy.

7. Despite prospective rapid growth in foreign debt during 1970-80, Algeria should be able to meet debt service payments without much difficulty. Even under fairly conservative assumptions, export earnings, capital inflows, and workers' remittances promise to be large enough to cover rapidly rising imports and growing debt obligations. Although sizable payments deficits are projected for 1979-80, Algeria has a good chance to build up its foreign reserves substantially in the meantime (see the table).

8. The outlook for exports, particularly crude oil, seems excellent. Oil exports are expected to jump 45% in 1972, as full production is resumed following 1971 cutbacks resulting from a dispute over partial nationalization of French oil companies. Following the anticipated completion of a fourth pipeline late in 1972, crude oil production is expected to increase about 4.5% annually through 1977, when it probably will level off unless new deposits have been discovered. Annual price increases of about 4% are likely during the early 1970s, and further increases probably will be forthcoming annually thereafter. Crude oil export revenues consequently are expected to soar from \$700 million in 1970 to \$1.7 billion in 1980. Although dramatic, the projected rise in oil earnings may prove low. The figures shown in the table for 1973 through 1977, for example, are based on company production estimates that are about 15% below those of the Algerian government.

9. Prospects also are good for greatly increased exports of liquefied natural gas if US authorities approve the contracts already signed by Algeria and El Paso Natural Gas Company and Distrigas Company. Scheduled shipments to the United States and Western Europe will boost gas export earnings from \$30 million in 1971 to \$250 million in 1976, when shipments under the El Paso contract are expected to begin. Since our projections of gas export earnings include only contracts already signed, they may be understated. Preliminary studies of two gas pipelines, which would run through Morocco and Tunisia and across the Mediterranean to Europe, are now under way, and, if these are built, even larger gas exports

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would be possible. Nonpetroleum exports are estimated to increase only about 3% annually on the basis of past trends, but this rate may be surpassed when the petrochemical plants begin producing.

10. If Algeria gets the foreign capital needed for its ambitious development plans, imports are expected to rise from \$1.1 billion in 1970 to \$2.8 billion in 1980, reflecting average gains of 10% annually. Although imports of food and other consumer goods are projected to increase somewhat as Algeria's population expands, industrial inputs and capital equipment will account for most import growth. Our projections of capital goods imports are based on planned investment expenditures through 1973 and on estimates of the outlays needed after 1973 to maintain a 6% annual growth in real GDP. The import projections may be overstated, however, particularly for the earlier years. They presume full realization of Algerian development plans through 1973 and include an upward adjustment of 10% to allow for increased costs. During 1970, Algeria actually made only 85% of its planned investment expenditures, and, because shortages of administrative and technical talent probably will become more severe, this realization rate may drop further. If imports and exports do rise as projected, Algeria will incur large trade deficits nearly every year during the next decade.

11. Workers' remittances and gross foreign borrowing probably will total \$650 million-\$850 million annually and thus more than cover the trade deficit through 1980. Workers' remittances, which consist almost exclusively of earnings sent home by Algerians working in France, now exceed \$200 million annually. These receipts have increased about 10% annually during the past several years, but their growth is projected only at a 5% rate because fewer workers may be allowed to enter France after the French-Algerian labor agreement is reviewed next year. Gross foreign borrowing is calculated at about 30% of capital goods imports, a slightly higher ratio than experienced during the late 1960s. Although debt service payments are estimated to rise from \$190 million this year to more than \$500 million by 1978-80, the projections do not point to a large balance-of-payments deficit until 1980. For the 1971-80 decade as a whole, estimated payments surpluses in most years appear sufficient to offset the deficits that threaten in others, especially in 1980.

12. Although reasonably reliable balance-of-payments projections are impossible to make beyond 1980, problems clearly could arise by that time. Much will depend on Algeria's ability to develop and market huge natural gas reserves, the trend in crude oil production, the success of export industries now being developed, and Algeria's willingness to deemphasize industrial development.

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Algeria: Projected Balance of Payments

	Million US \$											
	1969	1970 Provi- sional	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Trade balance	-120	-125	-420	-300	-290	-210	-270	-80	-80	-210	-360	-530
Exports	902	980	980	1,340	1,420	1,560	1,670	1,950	2,130	2,180	2,240	2,280
Oil exports	586	700	690	1,000	1,070	1,210	1,300	1,400	1,570	1,610	1,660	1,710
Natural gas	30	30	30	70	70	70	80	250	250	250	250	230
Other	286	250	260	270	280	280	290	300	310	320	330	340
Imports	-1,022	-1,105	-1,400	-1,640	-1,710	-1,770	-1,940	-2,030	-2,210	-2,390	-2,600	-2,810
Workers' remittances	198	218	230	240	250	260	280	290	300	320	340	350
Repatriated oil revenues a/	-222	-215	-10	-20	-50	-50	-50	-60	-80	-90	-90	-110
Capital inflow	64	74	430	410	470	440	430	380	420	450	490	510
Debt repayments (interest and amortization)			-190	-250	-300	-350	-410	-410	-460	-520	-510	-520
Surplus or deficit	-80	-48	+40	+80	+80	+90	-20	+120	+100	-50	-130	-300

a. Based on continuation through 1990 of existing terms of the agreement between Compagnie Francaise des Petroles (CFP) and the Algerian state oil company, SONATRACH. The projected figures take into account back taxes owed by French companies and indemnification payments due French companies.